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USTR FOR JASON BUNTIN
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SUBJECT: SAUDI ARABIA INVESTMENT CLIMATE STATEMENT

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2008 Investment Climate Statement

11. Chapter Headings:

- Openness to Foreign Investment
- Conversion and Transfer Policies
- Expropriation and Compensation
- Dispute Settlement
- Performance Requirements and Incentives
- Right to Private Ownership and Establishment
- Protection of Property Rights
- Transparency of Regulatory System
- Efficient Capital Markets and Portfolio Investment
- Political Violence
- Corruption
- Bilateral Investment Agreements
- OPIC and Other Investment Insurance Programs
- Labor
- Foreign-Trade Zones/Free Ports
- Foreign Direct Investment Statistics

Openness to Foreign Investment

12. Saudi Arabia, while certainly impacted by the global financial crisis, particularly the decline in the price of oil, is well-positioned to continue its recent economic success. Foreign direct investment inflows were over \$24 billion in 2007. Improvement of the investment climate is an important part of the Saudi government's broader program to liberalize the country's trade and investment regime, diversify an economy overly dependent on oil and petrochemicals, promote employment for a very young population, and become an active player in the World Trade Organization (WTO) following its accession in December 2005. In its "Doing Business 2009" report, the International Bank for Reconstruction and Development ranked Saudi Arabia 16th out of 181 economies in terms of ease of doing business.

13. The government encourages investment in transportation, education, health, information and communications technology, life sciences and energy, as well in six "Economic Cities" that are in various states of development. The Economic Cities are to be new, comprehensive developments in different regions focusing on particular industries. Prospective investors will find attractive Saudi Arabia's economic stability, the largest market in the Gulf (with a population of over 27 million), sound infrastructure, a well-regulated banking system, and relatively high per capita income.

14. There are also disincentives to investment, specifically a lack of transparency in the enforcement of intellectual property rights, a government requirement that companies hire Saudi nationals, the slow payment of some government contracts, a restrictive visa policy for all workers, a very conservative cultural environment, and enforced segregation of the sexes in most business and social settings. Further, there is not yet a transparent, comprehensive legal framework in place for resolving commercial disputes.

15. Prospective foreign investors want standardized treatment for corporate taxes, access to a skilled, motivated labor force, the consistent enforcement of foreign arbitration awards, a clear and transparent mechanism to reduce and stop counterfeit products from entering Saudi Arabia, and the protection of intellectual property rights that meets international standards.

16. The foreign direct investment law, revised in 2000, permits foreigners to invest in all sectors of the economy, except for specific activities contained in a "negative list." This list continues to shrink as Saudi Arabia works to liberalize trade and investment. Foreign investors are no longer required to take local partners in many sectors and may own real estate for company activities. They are allowed to transfer money from their enterprises outside of the country and can sponsor foreign employees. Minimum capital requirements to establish business entities have generally been eliminated; the chief exception being capitalization requirements in specific services, such as insurance.

17. In April 2000, the Council of Ministers established the Saudi Arabian General Investment Authority (SAGIA) to provide information and assistance to foreign investors, and to foster investment opportunities in energy, transportation, and knowledge-based industries (See www.sagia.gov.sa). SAGIA operates under the umbrella of the Supreme Economic Council, and is headed by SAGIA Governor Amr Al Dabbagh. SAGIA's duties include formulating government policies regarding investment activities, proposing plans and regulations to enhance the investment climate in the country, and evaluating and licensing investment proposals. All foreign investment projects must obtain a license from SAGIA. Local investors continue to apply to the Ministry of Commerce and Industry for licenses, and investments in specific sectors may require licenses from other government authorities, including, but not limited to, the Saudi Arabian Monetary Agency (SAMA), the Capital Market Authority or the Communications and Information Technology Commission.

18. SAGIA set up an Investor's Service Center (ISC) to provide licenses to foreign companies, provide support services to investment projects, offer detailed information on the investment process, and coordinate with government ministries in order to facilitate investment procedures. The ISC must decide to grant or refuse a license within 30 days of receiving an application and supporting documentation from the investor. In 2007, SAGIA licensed 1,483 joint and foreign investment projects worth a total of \$89 billion. The value of projects licensed increased by 33% percent from the previous year. Actual foreign direct investments inflows, however, were limited to about \$24 billion.

19. Investors complain that impediments to investment remain, many outside SAGIA's ability to correct. SAGIA has agreements with various Saudi government agencies and ministries to facilitate and streamline foreign investment procedures. Some of these agreements include facilitating entry visas, establishing SAGIA branch offices at Saudi embassies in different countries, facilitating the issuance of workers' visas, raising import tariff exemptions on raw materials to three years and increasing the exemptions on production and manufacturing equipment to two years, and the establishment of commercial courts. SAGIA opened a Women's Investment Center in spring 2003.

110. To make it easier for businesspeople to visit the Kingdom, SAGIA can sponsor visa requests directly without having to ask a local company to sponsor such visits. Saudi Arabia has also begun to implement a decree stating that sponsorship for certain business visas is no longer required.

111. In February 2001, SAGIA developed a negative list of sectors

off-limits to a controlling interest foreign investment (See www.sagia.gov.sa). The sectors currently closed to foreign investment include three manufacturing categories and 12 service industries. The list includes real estate investment in Mecca and Medina, some subsectors in printing and publishing, audiovisual and media services, land transportation services excluding the inter-city transport by trains, and upstream petroleum. SAGIA periodically reviews the list of activities excluded from foreign investment, and submits its reviews to the Supreme Economic Council for approval. Although these sectors are off-limits to 100 percent foreign investment, foreign minority ownership in joint ventures with Saudi partners may be allowed in some sectors.

¶12. Pursuant to commitments it made when acceding to the WTO, Saudi Arabia has opened additional service markets to foreign investment, including financial and banking services, maintenance and repair of aircraft and computer reservation systems, wholesale, retail and franchise distribution services, both basic and value-added telecom services, and investment in the computer and related services sector.

¶13. Other government bodies, such as the Royal Commission for Jubail and Yanbu, and the Arriyadh Development Authority, have actively promoted opportunities in Saudi Arabia's industrial cities and other regions. In addition to the majority government-owned Saudi Arabian Basic Industries Corporation (SABIC), private investment companies, such as the National Industrialization Company, the Saudi Venture Capital Group, and the Saudi Industrial Development Company have also become increasingly active in project development and in seeking out foreign joint venture partners.

¶14. The Saudi Industrial Development Fund (SIDF) is an important source of financing for investors. SIDF is a development finance institution affiliated with the Ministry of Finance. The main objective of SIDF is to support the development of the private industrial sector by extending medium to long-term loans for the establishment of new factories and the expansion, upgrading and modernization of existing ones. Foreign investors are eligible to receive low cost financing for up to 50 percent of project costs (i.e., fixed assets, pre-operating expenses and start-up working capital). Loans are provided for a maximum term of 15 years with repayment schedules designed to match projected cash flows for the project in question.

¶15. Saudi Arabian regulations currently close oil exploration, drilling, and production to foreign investment. National oil company Saudi Aramco presently conducts all oil exploration and development within Saudi Arabia. However, there are legacy foreign operations in the Partitioned Neutral Zone with Kuwait. Foreign companies, under current Saudi law, cannot purchase a stake in Aramco or take an equity position in the upstream oil sector.

¶16. In July 2003, however, the Ministry of Petroleum announced an auction to open up part of some unexplored areas to foreign investors for non-associated natural gas exploration. In January 2004, six companies competed in the auction for the three offered blocks. Shell, in a consortium with Total and Saudi Aramco, Russia's Lukoil, China's Sinopec, and a joint bid by Italy's Eni and Spain's Repsol, were awarded blocks, signing 40-year exploration and production contracts with the Saudi Minister of Petroleum in March 2004. The deals mark the first time since the nationalization of Aramco in 1980 that foreign oil companies have been permitted to carry out petroleum exploration activities in Saudi Arabia. In February 2008, Total withdrew from the South Rub Al Khali Company consortium's exploration program after disappointing initial results.

¶17. Saudi Arabia, as part of its WTO Accession Agreement with the United States, made a broad range of positive commitments that should result in the substantial opening of its energy service market. These commitments should allow U.S. energy service firms to compete on a level playing field for energy services projects associated with oil and gas exploration and development, pipeline transport of fuels, and management of consulting services.

¶18. In contrast, there is no prohibition on foreign investment in refining and petrochemical development and there is significant foreign investment in the downstream Saudi energy sector. Foreign

investment in the full hydrocarbon sector will be vital in the coming decades if Saudi Arabia hopes to expand refining capacity to meet expected growth in international demand. ExxonMobil and Shell are the largest foreign investors in Saudi Arabia; both are 50% partners in refineries with Saudi Aramco. Saudi Aramco had also announced the selection of two firms, ConocoPhillips and Total, to join as equity investors in two new 400,000 barrel per day export refineries scheduled for completion in 2011. While Aramco and Total have signed an agreement with a local contractor to build temporary facilities in support of construction, both this project and the ConocoPhillips project have recently been put on hold due to difficulty obtaining financing in the current global credit market.

¶19. In addition, ExxonMobil, Chevron Texaco, and Shell, as well as several other international investors, have formed joint ventures with SABIC, a Saudi parastatal, to build large-scale petrochemical plants that utilize gas feedstock from Saudi Aramco's existing operations at Ras Tanura. Aramco selected the Dow Chemical Company as its partner in a joint venture company to construct, own, and operate a chemicals and plastics production complex in Saudi Arabia's Eastern Province.

¶20. Joint ventures almost always take the form of limited liability partnerships. There are, however, disadvantages. Foreign partners in service and contracting ventures organized as limited liability partnerships must pay, in cash or in kind, 100 percent of their contribution to authorized capital. SAGIA's authorization is only the first step for setting up such a partnership. Still, foreign investment is generally welcome in Saudi Arabia if it promotes economic development, transfers foreign expertise to Saudi Arabia, creates jobs for Saudis, or expands Saudi exports.

¶21. Industrial projects remain subject to capitalization requirements that vary depending upon the value of the venture, but Saudi Arabia committed to removing this requirement as part of WTO accession. Additionally, 10 percent of profits must be set aside each year in a statutory reserve until it equals 50 percent of the venture's authorized capital.

¶22. Professionals, including architects, consultants, and consulting engineers, are required to register with, and be certified by, the Ministry of Commerce and Industry, in accordance with the requirements defined in the Ministry's Resolution 264 from ¶1982. These regulations, in theory, permit the registration of Saudi-foreign joint venture consulting firms. As part of its WTO accession commitments, Saudi Arabia generally allows consulting firms to establish an office in Saudi Arabia without a Saudi partner. However, offices practicing law, accounting and auditing offices, design, architectural, and engineering, civil planning, healthcare services, dentistry, and veterinary services, must have a Saudi partner; and the foreign partner's equity cannot exceed 75 percent of the total investment.

¶23. In 2002, the Supreme Economic Council announced the approval of a privatization strategy and procedures, sectors on offer to domestic and foreign investors, and a timetable to transfer certain public services to the private sector. Twenty state-owned companies handling water and drainage, saline water desalination, telecommunications, mining, power, air transportation and related services, railways, some sectors of roadways, post services, flour mills and silos, seaport services, industrial cities services, government hotels, sports clubs, some municipality services, some educational services, some social services, some agricultural services, some health services, government portions of SABIC, banks, and local refineries were slated for privatization.

¶24. As a result of the privatization strategy, the Saudi Telecommunications Company (STC) floated a minority stake (approximately 20%) on the stock market in January 2003, netting close to \$4 billion in proceeds. An additional 10% has since been offered for private ownership. The initial public offering of 50% of the formerly state-owned National Company for Cooperative Insurance (NCCI) was completed in January 2005. The first SABIC offering went public on December 17, 2005 for 35 percent of the newly-formed Yanbu National Petrochemical Company (YANSAB) (to be capitalized at \$1.5 billion). YANSAB will be SABIC's largest petrochemical complex and the IPO netted \$533 million in capital.

¶25. In July 2003, the government took significant, long-awaited steps to lower the corporate tax rate on foreign investors to a flat 20%; however, separate rates apply to investments in hydrocarbons. The flat tax replaced a tiered system with tax rates as high as 45%.

While this is a welcome step toward a more balanced treatment for foreign and Saudi owned capital, there are privileges and preferences in Saudi Arabia that favor Saudi companies and joint ventures with Saudi participation. For example, domestic corporate partners do not pay corporate income tax, but are subject to a 2.5 percent tax on net current assets, or "zakat."

Conversion and Transfer Policies

¶26. There are no restrictions on converting and transferring funds associated with an investment (including remittances of investment capital, earnings, loan repayments, and lease payments) into a freely usable currency at a legal market-clearing rate. There have been no recent changes, nor are there plans to change remittance policies. There are no delays in effect for remitting investment returns such as dividends, return of capital, interest and principal on private foreign debt, lease payments, royalties and management fees through normal legal channels. There is no need for a legal parallel market for investor remittances.

¶27. There is no limitation on the inflow or outflow of funds for remittances of profits, debt service, capital, capital gains, returns on intellectual property, or imported inputs with the exception that bulk cash shipments greater than 60,000 riyals must be declared at the point of entry or exit. Since 1986, when the last devaluation occurred, the official exchange rate has been 3.745 Saudi Riyals per U.S. dollar. Transactions occur using rates very close to the official rate. SAMA, the Central Bank, has intervened at times to keep the exchange rate fixed.

Expropriation and Compensation

¶28. The Embassy is not aware of the Saudi Government ever expropriating property. There have been no expropriating actions in the recent past or policy shifts that would lead the Embassy to believe there may be such actions in the near future.

Dispute Settlement

¶29. Saudi commercial law is still developing, but in 1994 the Saudis took the positive step of joining the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards. Saudi Arabia is also a member of the International Center for the Settlement of Investment Disputes (also known as the Washington Convention). However, dispute settlement in Saudi Arabia continues to be time-consuming and uncertain. Even after a decision is reached in a dispute, effective enforcement of the judgment can still take years. The Embassy suggests that American firms investing in Saudi Arabia include in contracts a foreign arbitration clause. Such clauses are not, however, allowed in government contracts without a decision by the Saudi Council of Ministers.

¶30. Saudi litigants have an advantage over foreign parties in almost any investment dispute because of their first-hand knowledge of Saudi law and culture, and the relatively amorphous dispute settlement process. Foreign partners involved in a dispute find it advisable to hire local attorneys with knowledge of Saudi legal practices. Many Saudi attorneys, in turn, retain non-Saudi (and particularly American) lawyers to facilitate the handling of disputes involving foreign investors.

¶31. In several cases, disputes have caused serious problems for foreign investors. For instance, Saudi partners have blocked foreigners' access to exit visas, forcing them to remain in Saudi Arabia against their will. In cases of alleged fraud, foreign partners may also be jailed to prevent their departure from the country while awaiting police investigation or adjudication of the

case. Courts can impose precautionary restraint on personal property pending the adjudication of a commercial dispute. As with any investment abroad, it is important that U.S. investors take steps to protect themselves by thoroughly researching the business record of the proposed Saudi partner, retaining legal counsel, complying scrupulously with all legal steps in the investment process, and securing a well-drafted agreement.

¶32. In December 2005, the Saudi government announced the formation of the Saudi International Arbitration Commission (SIAC), the first formal arbitration program for the business community. The SIAC falls under the Saudi chapter of the International Chambers of Commerce, and has adopted the same arbitration system employed by the International Court of Arbitration. The Government, due to past fiscal constraints, had in the past fallen into arrears on payments to private contractors, both Saudi and foreign. Some companies carried Saudi Government receivables for years before being paid. The Government appears committed to clearing remaining arrears.

¶33. The Saudi legal system is derived from the legal rules of Islam known as the Shari'a. The Ministry of Justice oversees the Shari'a-based judicial system, but most Ministries have committees to rule on matters under their jurisdiction. Many disputes which would be handled in a court in the U.S., in Saudi Arabia are handled through administrative processes within the relevant ministry. Generally, the Board of Grievances has jurisdiction over disputes with the government and over commercial disputes.

¶34. Of interest to investors who have disputes with private individuals are the Committee for Labor Disputes (under the Ministry of Labor) and the Committee for Tax Matters (under the Negotiable Instruments Committee, also called the Commercial Paper Committee). The Ministry of Finance has jurisdiction over disputes involving letters of credit and checks, while SAMA's Banking Disputes Committee adjudicates disputes between bankers and their clients. Judgments of foreign courts are not consistently enforced by Saudi courts, despite Saudi Arabia's signature of the New York Convention. Monetary judgments are based on the terms of the contract; i.e., if the contract were in dollars, the judgment would be in dollars; if unspecified, the judgment is denominated in Saudi riyals. Non-material damages and interest are not included in monetary judgments.

¶35. In October 2007, King Abdullah issued a royal decree to overhaul the Kingdom's judicial system, including allocating 7 billion SAR (approximately 1.9 billion USD) to train judges and build new courts. The decree establishes two Supreme Courts, a general court and an administrative court, and specialized labor and commercial tribunals. This announcement has not yet been implemented.

¶36. Saudi Arabia has a commercial law that is generally applied consistently. A bankruptcy law was enacted by Royal Decree no. N/16 dated 4/9/1416H (corresponding to 1/24/96). Articles contained in the law allow debtors to conclude financial settlements with their creditors through committees under the Saudi Chambers of Commerce and Industry or through the Board of Grievances. Designated as the Regulation on Bankruptcy Protective Settlement, the law is open to ordinary creditors except in the case of debts of expenditures, privileged debts, and debts which arise pursuant to the settlement procedures.

Performance Requirements and Incentives

¶37. Under the 1969 Labor and Workman Regulations, 75 percent of a firm's work force and 51 percent of its payroll must be Saudi, unless the Ministry of Labor has granted an exemption. In practice, the percentage of Saudis employed by a firm is often far less. The number of Saudis in the private sector labor force is approximately 10 percent. The public sector features a higher percentage of Saudi employees. In 1996, the Saudi Government implemented a regulation establishing a quota system that required each company employing over 20 workers to increase the number of Saudi employees by a minimum of five percent. The government increased the requirement by five percent per annum, and would have reached 45 percent of a firm's workforce in 2005. However, the 2005 Labor Law set a

standard limit requiring that Saudi nationals constitute 75% of a firm's workforce. Companies not complying with the Saudi minimum personnel rule will not be given visas for expatriate workers. Few firms have been able to meet these requirements. Foreign firms are under constant pressure to employ more Saudis. On the other hand, while the list of positions that may no longer be held by non-Saudis is expanding, the Ministry of Labor have relaxed these requirements in certain industries.

¶38. Investors are not currently required to purchase from local sources or export a certain percentage of output and their access to foreign exchange is unlimited. There is no requirement that the share of foreign equity be reduced over time. The Government does not impose conditions on investment such as locating in a specific geographic area, a specific percentage of local content or local equity, substitution for imports, export requirements or targets, or financing only by local sources. Investors are not required to disclose proprietary information to the Saudi government as part of the regulatory approval process.

¶39. Nonetheless, the SIDF will provide additional incentives and better term loans to foreign investors who set up their manufacturing facilities in Jizan, Hail, and Tabuk. American and other foreign firms are able to participate in Saudi government-financed and/or government-subsidized research and development programs.

¶40. The government uses its purchasing power to encourage foreign investment. In 1985, the Saudi Government reached an agreement with American defense contractors for "offset" joint venture investments with local investments equivalent to 35 percent of the program's value. British and French defense firms also have offset requirements. Offset requirements are likely to remain components of major defense purchases and have been incorporated into other large Saudi Government contracts.

¶41. The government has not notified the WTO about any measures which would be inconsistent with requirements of the Agreement on Trade-Related Investment Measures (TRIMs), nor does it maintain any measures that are alleged to violate the WTO TRIMs text.

¶42. The government announced in 2002 it would ease restrictions on the issuance of visas to foreign businessmen to allow greater access, and decreed in 2005 that sponsor requirements for business visas would be lifted. In November 2007, Saudi Arabia announced that it will begin issuing foreign business visitors one (1) year, multiple entry visas at Saudi embassies, consulates, and ports of entry. The government also announced that foreign business visitors will no longer need to provide invitation letters from Saudi businesses to receive visas.

Right to Private Ownership and Establishment

¶43. Domestic private entities have the right to establish and own business enterprises and engage in all forms of remunerative activity. Private entities generally have the right to freely establish, acquire, and dispose of interests in business enterprises. Certain activities are reserved for state monopolies and Saudi citizens.

Protection of Property Rights

¶44. The Saudi legal system protects and facilitates acquisition and disposition of private property, consistent with Islamic practice respecting private property. Non-Saudi corporate entities are allowed to purchase real estate in Saudi Arabia according to the new foreign investment code. Other foreign-owned corporate and personal property is protected, and the Embassy knows of no cases of government expropriation or nationalization of U.S.-owned assets in the Kingdom. Saudi Arabia does have a system of recording security interests.

¶45. Saudi Arabia recently undertook a comprehensive revision of its laws covering intellectual property rights to bring them in line

with the WTO agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs). The Saudi Government undertook the revisions as part of Saudi Arabia's accession to the WTO, and promulgated them in coordination with the World Intellectual Property Organization (WIPO). The Saudi Government recently updated their Trademark Law (2002), Copyright Law (2003), and Patent Law (2004) with the dual goals of TRIPs-compliance and effective deterrence against violators. In 2008 the Violations Review Committee created a website and has populated it with information on current cases.

¶46. The current Law on Patents, Layout Designs of Integrated Circuits, Plant Varieties and Industrial Designs has been in effect since September 2004. Largely due to a lack of adequate resources and technical expertise, when this law went into effect the patent office had issued just over 40 patents and had a large backlog (more than 9,000 applications dating back to issuance of Saudi Arabia's first patent law in 1989). The office has since streamlined its procedures, hired more staff, and reduced this backlog. Protection is available for product and product-by-process. The term of protection was increased from 15 years to 20 years under the new law, but patent holders can no longer apply for a routinely granted five-year extension.

¶47. An unknown number of pharmaceutical products lost patent protection when Saudi Arabia transitioned to a new TRIPs-compliant patent law in 2004. Products that had applications for patents pending under the old law (and enjoyed patent protection while their applications were pending) were reviewed as new cases under the new law. These products were then denied patents because it was determined that they were not "novel" because they had been publicly patented in other jurisdictions more than a year before their cases were considered in Saudi Arabia.

¶48. The Saudi Government has revised its Copyright Law, is devoting increased resources to marketplace enforcement, and is seeking to impose stricter penalties on copyright violators. The Saudi Government has stepped up efforts to force pirated printed material, recorded music, videos, and software off the shelves of stores. These efforts included stepping up raids on shops selling pirated goods in 2008. However, many pirated materials are still available in the marketplace. An Islamic ruling, or "fatwa," stating that software piracy is "forbidden" backs enforcement efforts. Saudi Arabia remains on the Special 301 Watch List for 2008.

¶49. Trademarks are protected under the Trademark Law. The Rules for Protection of Trade Secrets came into effect in 2005. Saudi Arabia has one of the best trademarks laws in the region, but enforcement still lags and procedures are inconsistent.

¶50. Saudi Arabia has not signed and ratified the WIPO internet treaties.

Transparency of Regulatory System

¶51. There are few aspects of the Saudi government's regulatory system that are transparent, although Saudi investment policy is less opaque than many other areas. Saudi tax and labor laws and policies tend to favor high-tech transfers and the employment of Saudis rather than fostering competition. Saudi health and safety laws and policies are not used to distort or impede the efficient mobilization and allocation of investments. Bureaucratic procedures are cumbersome, but red tape can generally be overcome with persistence.

¶52. There are no informal regulatory processes managed by NGOs or private sector associations. While proposed laws and regulations are generally not published in draft form for public comment, some government agencies permit public comments through their websites. There are no private sector or government efforts to restrict foreign participation in industry standards-setting consortia or organizations.

Efficient Capital Markets and Portfolio Investment

153. Saudi Arabia has generally free and open financial markets, although non-GCC foreign investors may only invest in the stock market through mutual funds and "swap agreements." These limits are gradually relaxing. Financial policies generally facilitate the free flow of private capital and currency can be transferred in and out of Saudi Arabia without restriction (with the exception of previously mentioned limits on bulk cash movements). In 2003, SAMA, the Central Bank, enhanced and updated its 1995 Circular on Guidelines for the Prevention of Money Laundering and Terrorist Financing. The enhanced guidelines are more compliant with the Banking Control Law, the Financial Action Task Force (FATF) 40 Recommendations, the 9 Special Recommendations on Terrorist Financing, and relevant UN Security Council Resolutions.

154. Historically, credit has been widely available to both Saudi and foreign entities from the commercial banks, and has been allocated on market terms. The global financial crisis of 2008 has substantially reduced this availability to all parties, resulting in the delay or cancellation of some projects. Credit is also available from several government credit institutions, such as the SIDF, which allocates credit based on government-set criteria rather than market conditions. Companies must have a legal presence in Saudi Arabia in order to qualify for credit. The private sector has access to term loans, but there is no true corporate bond market. Most IPOs have been put on hold as the Saudi stock market's volatility has spiked in response to the global financial crisis. The IPO market will likely take some time to recover as skittish investors are not likely to return to the market in the near future.

155. As part of the economic reforms initiated for accession to the WTO, Saudi Arabia liberalized licensing requirements for foreign investment in the financial services. In addition, the government increased foreign equity limits in financial institutions from 40% to 60% to entice further foreign investment. In the last few years, the Saudi government has taken steps to increase foreign participation in its banking sector by granting operating licenses to foreign banks. SAMA granted ten foreign bank licenses to operate in the Kingdom in December 2005, including to BNP Paribas, Deutsche Bank, J.P. Morgan, National Bank of Kuwait, National Bank of Bahrain, Emirates Bank, Gulf International Bank, State Bank of India, and National Bank of Pakistan.

156. The legal, regulatory, and accounting systems practiced in the banking sector are generally transparent and consistent with international norms. SAMA, which oversees and regulates the banking system, generally gets high marks for its prudent oversight of commercial banks in Saudi Arabia. SAMA is the only central bank in the Middle East other than Israel's that is a member and shareholder of the Bank for International Settlements in Basel, Switzerland.

157. The new Capital Markets Law, passed in 2003, allows for brokerages, asset managers, and other non-bank financial intermediaries to operate in the Kingdom. The law created a market oversight body, the Capital Market Authority, which was established in 2004, and opened the stock exchange to public investment. New financial firms established under the new law will drive an increase in corporate and consumer finance activity. By late 2008 more than 100 companies had received licenses to provide investment banking and brokerage services. As of August 2008, foreigners can now invest in the stock market through "swap agreements" with local investment houses. These allow foreign investors to hold Saudi securities for a period ranging from three months to four years, but without any voting rights. There is an effective regulatory system governing portfolio investment in Saudi Arabia.

Political Violence

158. The Department of State urges American citizens to consider carefully the risks of travel to Saudi Arabia due largely to targeted attacks against American citizens that have resulted in deaths and injuries. There have been a number of anti-Western attacks in Saudi Arabia since May 2003. Terrorists have targeted housing compounds, businesses, and Saudi government facilities with vehicle-borne explosives and automatic weapons causing significant

civilian deaths and serious injuries. In separate incidents, terrorists have held hostages and killed individual Westerners, including American citizens. On December 6, 2004, terrorists carried out an armed attack against the U.S. Consulate General in Jeddah, which resulted in casualties among the Consulate staff and damage to consulate facilities. In February 2006, terrorists attempted an attack on Saudi oil facilities at Abqaiq in the Eastern Province. In February 2007, four French tourists were killed in a terrorist incident on a desert track north of Medina.

¶59. The U.S. Embassy, working closely with Saudi security officials, periodically advises American citizens of potential security concerns.

Corruption

¶60. Saudi Arabia has some, albeit limited, laws aimed at curbing corruption. The Tenders Law of Saudi Arabia, approved in 2004, has improved transparency within government procurement through publication of such tenders. Further, ministers and other senior government officials appointed by royal decree are forbidden from engaging in business activities with their ministry or government organization while employed there. There are few cases of prominent citizens or government officials being tried on corruption charges. The National Authority to Combat Corruption and the General Auditing Bureau are charged with combating corruption.

¶61. Despite the fact that corruption has been identified by foreign firms as an obstacle to investment in Saudi Arabia, authorities have taken some recent steps toward combating it. In April 2007, the King established the National Authority for Combating Corruption that is to report directly to him. This commission embodies the government's determination to implement a national strategy aimed at eliminating corruption of government employees. To what extent the Commission will be empowered to eradicate corruption remains to be seen on the ground."

¶62. Saudi Arabia has signed but not ratified the UN Anticorruption Convention. Saudi Arabia is not a signatory of the OECD Convention on Combating Bribery.

Bilateral Investment Agreements

¶63. There is no bilateral investment treaty in force between the United States and Saudi Arabia, although both sides have exchanged draft texts for review. GCC countries and their nationals receive favorable investment treatment derived from GCC agreements.

OPIC and Other Investment Insurance Programs

¶64. The Overseas Private Investment Corporation (OPIC) no longer provides coverage in Saudi Arabia. In 1995, OPIC removed Saudi Arabia from its list of countries approved for OPIC coverage because of Saudi Arabia's failure to take steps to comply with internationally recognized labor standards. Details on OPIC programs and coverage can be obtained at www.opic.gov. Saudi Arabia is a member of the Multilateral Investment Guarantee Agency.

Labor

¶65. The Ministry of Labor and the Ministry of Interior regulate recruitment of expatriate labor. In general, the government encourages recruitment of Muslim workers, either from Muslim countries or from countries with sizable Muslim populations. The largest groups of foreign workers now come from Bangladesh, Egypt, India, Pakistan, the Philippines, and Yemen. Westerners compose less than two percent of the labor force, although this percentage is increasing as they seek to take advantage of the relatively stable Saudi economy during a time of global economic uncertainty.

¶66. Since September 1994, the Ministry of Labor has been required to certify that there are no qualified Saudis for a particular job

before an expatriate worker can fill that job. In addition, the original sponsor must approve all transfers of expatriate workers from his sponsorship to another (except in cases of non-payment of wages for three consecutive months or more). While group visas are available for unskilled and some skilled workers recruited abroad, the Ministry of Labor is actively trying to limit the numbers of visas being issued in its bid to create more job opportunities for Saudis.

¶67. Saudi labor law forbids union activity, strikes, and collective bargaining. However, the Government allows companies that employ more than 100 Saudis to form "labor committees." By-laws detailing the functions of the committees were enacted in April 2002. To date, 15 labor committees have been established. Domestic workers are not covered under the provisions of the new labor law issued in ¶2005. The Saudi Majlis al-Shura, a consultative assembly with a role in the legislative process, has passed a law covering domestic workers, which is now with the King and the Council of Ministers for review.

¶68. Overtime is normally compensated at time-and-a-half rates. The minimum age for employment is 14. The Saudi government does not adhere to the International Labor Organization's (ILO) convention protecting workers' rights. A July 2004 decree addresses some workers, rights issues for non-Saudis, and the Ministry of Labor has begun taking employers to the Board of Grievances. Some of these penalties include banning these employers from recruiting foreign and/or domestic workers for a minimum of five years.

Foreign-Trade Zones/Free Ports

¶69. Saudi Arabia does not currently have duty-free import zones or free ports. It does permit transshipment of goods through its ports in Jeddah and Dammam.

¶70. Saudi Arabia is a member of the Gulf Cooperation Council (GCC), which confers special trade and investment privileges within the six member states (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE). Saudi Arabia is also a member of the Arab League, which agreed to negotiate an Arab free trade zone.

Foreign Direct Investment Statistics

¶71. Accurate, up-to-date data on foreign direct investment in Saudi Arabia is difficult to obtain. Problems include double counting in domestic/foreign joint ventures, historical versus current market valuations, domestic financing by foreign firms, difficult-to-tabulate profit reinvestments by foreign firms, and the relatively small, off-the-books investments by Asian entrepreneurs and others, often disguised under a Saudi sponsor.

¶72. Figures provided in this section are taken from United Nations Conference on Trade and Development's "World Investment Report 2008 Country Fact Sheet." Following are key FDI indicators as provided by the referenced report for 2007 (all figures are in USD millions unless otherwise indicated):

FDI Inflow	24318
FDI Outflow	13139
FDI Inward Stock	76146
FDI Outward Stock	22050
FDI Inflow as % of GDP	20.2
FDI Outflow as % of GDP	5.8
FDI Inflow as % of GFCF	30.1
FDI Outflow as % of GFCF	16.3

GDP = gross domestic product
GFCF = gross fixed capital formation

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